

OFFICE OF FINANCIAL INSTITUTIONS

OFI BULLETIN

BL-02-2005 [B,SB,SL]

July 15, 2005

[Amends BL-01-2005 dated February 1, 2005]

TO: THE CHAIRMAN OF THE AUDIT COMMITTEE, CHIEF EXECUTIVE OFFICER/MANAGER, AND INTERNAL AUDITOR

**FROM: SIDNEY E. SEYMOUR, CEM
CHIEF EXAMINER**

SUBJECT: CLARIFICATION OF EXPECTATIONS REGARDING THE REVIEW OF EXECUTIVE EXPENSES

After distributing OFI Bulletin BL-01-2005 "Audit/Auditor Requirements and New Examination Procedures" on February 1, 2005, we received several requests from CEOs for further clarification of our plans to review executive expenses at future examinations. The purpose of the reviews is not to question legitimate business-related expenses but to ensure that appropriate controls are in place relating to these expenses.

Examiners will review the following to determine if the institution has internal controls in place to properly authorize and document the payment of executive expenses:

1. The Board has formulated and implemented its intent with respect to the reimbursement of executive expenses in either procedures or a written policy.
2. The policy or procedures are specific with respect to the requirement for maintenance of original invoices and documentation to support the expenses, as well as documentation supporting the business nature of the expenses, before the institution pays the expense. Please be aware that charging personal expenses to a corporate credit card, even though prompt reimbursement is made, is an apparent violation of Regulation O because the terms of this extension of credit are not substantially the same for comparable transactions. Therefore, **NO** personal expenses should be charged to a financial institution's corporate credit card.
3. The policy or procedures provide specific guidance with respect to those persons responsible for reviewing and approving business expenses before they are paid. For example, the CEO may be responsible for approving expenses for all officers under his/her management. Additionally, the Audit Committee or a person on the Audit Committee or a board member should review and approve the CEO's expenses before payment.

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4. Executive expenses are audited for compliance with the policy or procedures by the internal audit department, and the audit results are communicated to the Audit Committee and the Board.
5. The Audit Committee and Board take action to correct weaknesses and to implement recommendations by the internal auditor.

If executive expenses have not been approved pursuant to procedures or a written policy and an institution's internal audit function has not audited these expenses for compliance with the policies and procedures, examiners will **sample** selected executive expenditures to determine that the institution has obtained and retained adequate documentation to support the business purpose and authorization of expenses. Examiners **will not** conduct an audit of **all** expenditures. If exceptions are noted, the Audit Committee may be asked to conduct a comprehensive review to test the payment of executive expenses and implement additional safeguards to prevent any future problems.

This bulletin will also be posted on OFI's website www.ofi.state.la.us. If you have any questions, please contact me by phone at (225) 925-4675 or by email at sseymour@ofi.state.la.us.